

Message Text

CONFIDENTIAL

PAGE 01 BONN 09842 01 OF 02 101801Z
ACTION EUR-12

INFO OCT-01 ISO-00 COME-00 CIAE-00 DODE-00 PM-04 H-01
INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02
SS-15 USIA-06 AID-05 EB-07 EPG-02 TRSE-00 STR-04
OMB-01 CEA-01 FEAE-00 AGR-05 /083 W
-----101831Z 022700 /53

R 101751Z JUN 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 8972
INFO AMEMBASSY MOSCOW

C O N F I D E N T I A L SECTION 01 OF 02 BONN 09842

DEPT PASS COMMERCE

E.O. 11652: GDS
TAGS: EEWT, UR, GW
SUBJ: WEST GERMAN/SOVIET ECONOMIC RELATIONS FOLLOWING
SEVENTH MIXED ECONOMIC COMMISSION MEETING

REF: BONN 8531

1. SUMMARY. SEVENTH MIXED COMMISSION MEETING WAS ONE OF THE DULLEST IN THE HISTORY OF SOVIET/WEST GERMAN ECONOMIC RELATIONS. DESPITE TOP LEVEL GERMAN PARTICIPATION, THE SOVIETS WERE UNWILLING TO DISCUSS THE SPECIFICS OF INDUSTRY COOPERATION OR TO PROPOSE INITIATIVES IN ANY ECONOMIC SUBSECTORS. HOWEVER, THEY WISHED TO KEEP THEIR OPTIONS OPEN FOR BREZHNEV'S AUTUMN VISIT TO BONN AND HAVE CALLED FOR A MEETING OF AN AD HOC WORKING GROUP OF THE MIXED COMMISSION SIX TO EIGHT WEEKS PRIOR TO BREZHNEV'S VISIT. ECONMIN SOURCE DOUBTS THAT THIS MEETING WILL PRODUCE NEW DEALS OR AGREEMENTS WHICH WOULD ADD FANFARE TO BREZHNEV'S VISIT, BUT THE TWO SIDES CAN ALWAYS COME UP WITH FRAMEWORK AGREEMENTS AND RECYCLED INDUSTRIAL DEALS
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PAGE 02 BONN 09842 01 OF 02 101801Z

SHOULD THE NEED ARISE. END SUMMARY.

2. THE SEVENTH SESSION OF THE JOINT FRG/USSR MIXED ECONOMIC COMMISSION MET JUNE 2 AND 3 IN BONN WITH FIRST SOVIET DEPUTY PREMIER TIKHONOV HEADING THE SOVIET SIDE AND ECONMINISTER FRIDERICHs SHARING THE GERMAN CHAIR WITH STATE SECRETARIES ROHWEDDER AND

HERMES FROM THE FONOFF. WOLFF VON AMERONGEN, PRESIDENT OF THE FEDERATION OF GERMAN INDUSTRY'S EASTERN EUROPEAN SECTION, HEADED THE IMPRESSIVE LIST OF GERMAN INDUSTRIAL REPRESENTATIVES. FOLLOWING THE SECOND DAY OF MIXED COMMISSION MEETINGS, TIKHONOV VISITED MAJOR GERMAN FIRMS FROM JUNE 6 UNTIL JUNE 8.

3. IT WOULD BE AN UNDERSTATEMENT TO SAY THAT THE FINAL COMMUNIQUE WAS BLAND. THE USUAL HORTATORY PROVISIONS ON EXPANSION OF TRADE, COOPERATION, AND PARTICIPATION IN THIRD MARKETS WERE PRESENT ALONG WITH FREQUENT FAVORABLE APPRAISALS OF THE STATUS OF ECONOMIC RELATIONS BETWEEN THE TWO COUNTRIES. AS NO SPECIFIC NEW DEALS COULD BE POINTED TO, THE TWO SIDES WERE FORCED TO REFER TO THE ALREADY WELL-KNOWN GAS/PIPE DEAL AS AN EXAMPLE OF THE INTENSIVE COOPERATION BETWEEN THE TWO COUNTRIES. PROBLEMS OF TRADE AND THE SPECIFIC INTERESTS OF EACH SIDE RECEIVED ONLY CURSORY ATTENTION.

4. ECONMIN OFFICIAL WHO PARTICIPATED IN ALL SESSIONS PROVIDED THE FOLLOWING DETAILS ON SELECTED ASPECTS OF THE MEETING:

A. TRADE. GERMAN EXPORTS TO THE USSR CONTINUE THEIR DOWNWARD TREND, DROPPING 7.4 PERCENT IN THE FIRST QUARTER OF 1977. SOVIET EXPORTS WERE ALSO DOWN BY 6.3 PERCENT. THESE RESULTS WERE HARDLY THE CAUSE FOR CHEER ON EITHER SIDE, ALTHOUGH THEIR NET EFFECT IS A FURTHER REDUCTION IN THE SOVIET BILATERAL TRADE DEFICIT. CONFIDENTIAL

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PAGE 03 BONN 09842 01 OF 02 101801Z

HAD THERE BEEN ANY DOUBT THAT THE SOVIETS WERE BRAKING WESTERN IMPORTS TO KEEP THEIR HARD CURRENCY DEBT WITHIN MANAGEABLE PROPORTIONS, THE GERMAN EXPORT FIGURES, IN THE VIEW OF OUR SOURCE, REMOVED IT. AT NO POINT IN THE DISCUSSION DID THE SOVIETS EXPRESS AN INTEREST IN WESTERN CREDITS. COMPENSATION TRADE WAS DISCUSSED EXTENSIVELY IN THE SESSIONS, WITH THE TWO SIDES APPARENTLY COMING TO SOME MEETING OF THE MINDS. THE SOVIETS ACKNOWLEDGED THE IMPORTANT ROLE WHICH SMALL AND MIDDLE-SIZED FIRMS PLAY IN GERMAN/SOVIET TRADE, ESPECIALLY IN SOME HIGH TECHNOLOGY SECTORS, AND INTIMATED THAT DEMANDS FOR COMPENSATION TRADE IN THE FUTURE WOULD NOT BE SO STIFF FOR THESE FIRMS. OUR SOURCE WOULD NOT GO AS FAR AS THE STATEMENTS IN VARIOUS NEWS ACCOUNTS, HOWEVER, WHICH QUOTED TIKHONOV AS SAYING THAT THE SOVIETS WOULD PAY CASH FOR PROJECTS INVOLVING SMALL AND MIDDLE-SIZED FIRMS. TIKHONOV, IN A PRESS CONFERENCE ON JUNE 3, REPORTED THAT 10 PERCENT OF THE TOTAL TRADE BETWEEN THE TWO COUNTRIES WAS NOW

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PAGE 01 BONN 09842 02 OF 02 101806Z
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OMB-01 CEA-01 FEAE-00 AGR-05 /083 W
-----101829Z 022779 /53

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 09842

FINANCED BY COMPENSATION ARRANGEMENTS.

B. INDUSTRIAL COOPERATION. THE FINAL COMMUNIQUE GAVE CONSIDERABLE PLAY TO EXPANDED COOPERATION IN TWO SECTORS, MACHINERY AND CHEMICALS. THE SOVIETS APPARENTLY DISCUSSED THEIR LONG-RANGE PLANS IN THESE SECTORS AND INDICATED IN GENERAL TERMS THE PROSPECTS FOR COOPERATION WITH WEST GERMAN FIRMS. TWO CONTRACTS WERE CONCLUDED FOR THE DELIVERY OF MACHINERY FOR POLYESTER FIBER PRODUCTION (DM 300 MILLION), WITH FINANCING APPARENTLY COMING FROM THE DM 2.5 BILLION SKELETON CREDIT AGREEMENT PROVIDED BY DRESDNER BANK AND THE WESTDEUTSCHE LANDESBANK. NO OTHER SPECIFIC PROJECTS WERE DISCUSSED, ALTHOUGH NEWSPAPER ACCOUNTS MISTAKENLY REPORTED THAT A NEW GAS PIPELINE PROJECT WAS DISCUSSED WHICH WOULD DELIVER SIBERIAN METHANOL TO THE FRG. OUR SOURCE NOTED THAT THE MARKET FOR METHANOL IN THE FEDERAL REPUBLIC IS NOT GREAT AND THAT A NUMBER OF OBSTACLES STAND IN THE WAY OF SUCH A PROJECT. THERE WAS CONSIDERABLE DISCUSSION DURING TIKHONOV'S MEETINGS WITH GERMAN INDUSTRY ABOUT THE CONSTRUCTION OF

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BONN 09842 02 OF 02 101806Z

A DM 10 BILLION ELECTRO-METALLURGICAL PLANT AT OSKOL, THOUGH OUR SOURCES DO NOT BELIEVE THAT A CONTRACT HAS BEEN SIGNED YET.

C. RAW MATERIALS. THE FRG TOOK PAINS TO INDICATE ITS INTEREST IN FURTHER RAW MATERIAL DEALS WITH THE SOVIET UNION, BUT THE SOVIETS SHOWED NO INTEREST. ONE NEWS ACCOUNT SUGGESTED THAT THE SOVIETS WOULD NOT BE READY TO DISCUSS THIS TOPIC UNTIL THEIR NEXT FIVE-YEAR PLAN IS PREPARED, BUT OUR SOURCE COULD NOT CONFIRM THIS OR SPECULATE AS TO THE ORIGIN OF THIS REPORT. NATURAL GAS DELIVERIES, WHICH ARE COVERED UNDER A LONG-TERM AGREEMENT WITH THE SOVIET UNION, WILL INCREASE TO 7 BILLION CUBIC METERS NEXT YEAR AND WILL REACH THE AGREED LEVEL OF 10 BILLION CUBIC METERS ANNUALLY IN 1981.

D. THIRD COUNTRY COOPERATION. TWO PROJECTS ARE NOW IN FORCE, BOTH INVOLVING THE CONSTRUCTION OF POWER PLANTS (ONE IN ARGENTINA, ONE IN GREECE). NO NEW JOINT VENTURES WERE DISCUSSED.

E. EXPERT AND WORKING GROUPS. TEN EXISTING EXPERT AND SPECIALIST GROUPS MET DURING THE COURSE OF THE SOVIET VISIT. IN ADDITION, THREE GROUPS MET ON AN AD HOC BASIS: AGRICULTURE, CONSTRUCTION TECHNIQUES, AND MACHINERY FOR THE FOOD AND LIGHT INDUSTRY SECTORS. THE EXPERT GROUP FOR AGRICULTURE WAS FORMALLY CONSTITUTED AND WILL NOW MEET ON A REGULAR BASIS.

5. PRIOR TO THE MIXED COMMISSION MEETING THE FINAL AGREEMENT ON THE CONSTRUCTION OF MOSCOW'S NEW AIR TERMINAL WAS SIGNED BY A SUBSIDIARY OF SALZGITTER AG. THE CONTRACT IS WORTH DM 200 MILLION AND DRESDNER BANK WILL PROVIDE FINANCING.

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PAGE 03 BONN 09842 02 OF 02 101806Z

6. COMMENT: IT IS STILL NOT CLEAR TO OUR GERMAN CONTACTS WHAT ROLE THE ECONOMIC SECTOR WILL PLAY IN BREZHNEV'S VISIT TO BONN. ON THE BASIS OF THE MIXED COMMISSION'S SESSIONS, OUR SOURCES CAN POINT TO NO FIELDS OF INDUSTRIAL COOPERATION WHERE AGREEMENTS COULD BE WRAPPED UP PRIOR TO BREZHNEV'S VISIT NOR DO THEY SEE ANYTHING ELSE OF SUFFICIENT ATTRACTION FOR BREZHNEV. THE AD HOC MEETING, WHICH THE SOVIETS HAVE REQUESTED, OFFERS A LAST-MINUTE OPPORTUNITY FOR INITIATIVES, BUT

OUR SOURCE EXPECTS NOTHING NEW OR STARTLING. LOOKING
AT IT POSITIVELY, THE GENERAL ABSENCE OF THORNY
BILATERAL ECONOMIC PROBLEMS OBVIATES THE NEED FOR
NEWSWORTHY AGREEMENTS OF A PROBLEM-SOLVING CHARACTER,
BUT SOVIET PENCHANT FOR PUTTING PEN TO PAPER ON HIGH-
LEVEL VISITS MAY REQUIRE MORE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: EAST WEST TRADE, MEETING REPORTS
Control Number: n/a
Copy: SINGLE
Sent Date: 10-Jun-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977BONN09842
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770208-0124
Format: TEL
From: BONN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770671/aaaacjql.tel
Line Count: 231
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: a205ee7f-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 77 BONN 8531
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 02-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2205654
Secure: OPEN
Status: NATIVE
Subject: WEST GERMAN/SOVIET ECONOMIC RELATIONS FOLLOWING SEVENTH MIXED ECONOMIC COMMISSION MEETING
TAGS: EEWT, UR, GE
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/a205ee7f-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009